

**GAO**

**United States General Accounting Office**

**Report to Congressional Committees**

**February 2002**

# **DEFENSE LOGISTICS**

## **Opportunities to Improve the Army's and the Navy's Decision-making Process for Weapons Systems Support**

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## Abbreviations

|     |                           |
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| DOD | Department of Defense     |
| GAO | General Accounting Office |



United States General Accounting Office  
Washington, DC 20548

February 28, 2002

The Honorable Carl Levin  
Chairman  
The Honorable John W. Warner  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Bob Stump  
Chairman  
The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

Since the end of the Cold War, the Department of Defense (DOD) has dramatically reduced its forces and associated logistics support.<sup>1</sup> The armed services have also significantly reduced their procurement of new weapons systems and are keeping their existing systems longer than originally anticipated. DOD has estimated that it is spending about \$59 billion a year on logistics support to operate and sustain weapons systems,<sup>2</sup> but the Department has estimated that these costs could be reduced as much as 20 percent by adopting improved logistics support practices. In fiscal year 1998, the Department directed the armed services to pursue logistics support “reengineering”<sup>3</sup> efforts to achieve significant savings and to improve efficiencies. To this end, the services have begun implementing logistics support strategies that rely on the private sector to provide most of the support that was traditionally provided by the

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<sup>1</sup> The services, materiel, and transportation required to support deployed forces.

<sup>2</sup> DOD does not routinely capture these costs in its accounting and estimating systems. However, beginning in fiscal year 1999, the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics started estimating the amounts spent annually on logistics support.

<sup>3</sup> This is the term DOD uses to describe its efforts to make the sustainment of weapons systems more cost-effective throughout their life cycle by ensuring that support infrastructures are competitive, efficient, timely, and unobtrusive.

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government. This approach is generally referred to as "contractor logistics support."<sup>4</sup>

The services are responsible for developing a logistics support "concept" before a weapon system is produced. Department of Defense Regulation 5000.2-R<sup>5</sup> expresses a preference for using long-term contractor logistics support, but also provides that an analysis must first be performed to determine how logistics support work is to be allocated to public or private entities. To decide which option to use, the services identify cost and performance expectations for a specific system. When the services choose the contractor-logistics-support approach, they are to develop and implement a contracting strategy, including an analysis of the performance and costs expected from the contractor. After a contract award, the service is to measure the contractor's performance against the performance and cost requirements defined in the contract.

Your committees expressed concerns about the cost-effectiveness of expanding the use of the contractor-logistics-support approach and about the management challenges it may create for major commands. As agreed with your offices, we first reviewed and reported on the Air Force's experience with this approach because the Air Force has had more experience with it over a longer time period. We issued our report on that work in September 2001.<sup>6</sup> A summary of the issues covered in that report is in the background section of this report.

This report covers the Army's and Navy's use of contractor logistics support and (1) addresses to what extent these services have sufficient data to assess whether the initial cost-effectiveness estimates used to justify a contractor-logistics-support approach are being achieved; (2) compares the performance of contractors, with that of Army and Navy depots in terms of cost and responsiveness for the same or similar depot

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<sup>4</sup> Contractor logistics support is expected to be a long-term support arrangement and is generally associated with multiple functions such as maintenance, supply, and engineering. This approach was first used with commercial derivative systems to allow the military to benefit from a support system already established in the commercial market place. More recently the concept is being used for military-unique systems.

<sup>5</sup> *Mandatory Procedures for Major Defense Acquisition Programs and Major Automated Information System Acquisition Programs*, Department of Defense Regulation 5000.2-R (June 2001).

<sup>6</sup> See U.S. General Accounting Office, *Defense Logistics: Air Force Lacks Data to Assess Contractor Logistics Support Approaches*, GAO-01-618 (Washington, D.C.: 2001).

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maintenance work; and (3) addresses to what extent the services are addressing their major commands' concerns about the increased use of long-term contractor logistics support. This report completes our work in response to your request for an analysis of contractor-logistics-support issues.

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## Results in Brief

In general, it is impossible to determine whether initial cost-effectiveness estimates for proposed contractor-logistics-support approaches are being achieved because the Army and the Navy do not have the data required to make these assessments. Consequently, the services may be adopting support approaches without knowing whether expected readiness improvements and cost-reduction goals are being met, where adjustments are needed, or the conditions under which the various support approaches are likely to achieve the most cost-effective results. The Defense Department's policy requires that initial cost and performance analyses be performed before selecting a logistics support approach for weapons systems, but it does not require a detailed quantification of the alternatives or require that this information be retained throughout the system's life cycle. We found that the services created and retained documentation justifying their selected approaches for only 11 of the 75 weapons systems reviewed. Furthermore, data for 6 of the 11 systems do not allow a comparison of initial expectations with contractor performance. The data for the remaining five systems do not provide a sufficient basis for drawing any conclusions about the cost-effectiveness of contractor logistics support. Data comparing contractor performance with contract requirements indicate that requirements are being met. However, the lack of information precludes the services from determining whether the original support approach expectations are being met and whether the Department will achieve its goal of a 20-percent reduction in logistics support costs using by contractor logistics support.

Comparisons of the same or similar work performed by military and private facilities are not possible or were inconclusive in determining which option is more cost-effective. No comparisons were possible for the Army because, as a matter of policy, it does not divide its depot-level maintenance work for the same items between Army and contractor facilities. Only four comparisons of aircraft systems were possible in the Navy, and these showed mixed results: Navy depots were more cost-effective in two cases, the contractor was more cost-effective in the third case, and both were equally cost-effective in the fourth. Furthermore, comparisons of available cost data for 53 aircraft and ship components

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also showed mixed results; Navy depots and contractors each were more cost-effective in about half the comparisons.

While contractors have provided certain logistics support needs, major Army and Navy commands have several concerns about the widespread use of contractor logistics support. However, either the Department's and the services' actions so far do not fully address these concerns, or the issues have not been fully resolved. Major command officials expressed concern about (1) their ability to develop and maintain critical technical skills and knowledge, (2) contractors deployed on the battlefield and how protecting and supporting these contractors may affect their troops' ability to accomplish their missions, (3) their ability to shift funds in response to changing conditions, and (4) not having affordable technical data on hand to develop additional or new sources of repair and maintenance to ensure a competitive market.

We are making recommendations to improve the Army's and the Navy's decision-making process for weapons systems support and, thus, the Department's ability to assess the cost-effectiveness of logistics support strategies and reduce its logistics support costs. We are also recommending that the Department assess the validity of major command concerns related to expanding the use of contractor logistics support. In commenting on a draft of this report, DOD generally concurred with our recommendations and identified specific actions it plans to take.

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## Background

DOD is moving to greater reliance on the private sector for logistics support for new weapons systems and major upgrades of existing systems. DOD Regulation 5000.2-R states that within statutory limitations, support concepts for weapons systems shall use contractor-provided long-term logistics support based on best value<sup>7</sup> over the system's life cycle.<sup>8</sup> Our

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<sup>7</sup> DOD Regulation 5000.2-R does not define "best value," which is generally considered to be a process that uses other factors in addition to cost or price to achieve the greatest overall benefit in selecting support approaches.

<sup>8</sup> A system's life cycle spans from the time it is initially developed to the time it is removed from the inventory.

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review of 71 new and upgraded weapons systems showed that these programs are using the private sector for most depot maintenance.<sup>9</sup>

DOD is using 30 pilot programs to test logistics support reengineering concepts that place greater reliance on the private sector. Many involve contractor logistics support, direct vendor delivery, or performance-based logistics.<sup>10</sup> We recently reported, however, that the pilot programs have problems in evaluating the cost-effectiveness of logistics reengineering concepts and are unlikely to provide the data needed to compare initial expectations with results.<sup>11</sup>

Various DOD studies—including the 1995 Commission on Roles and Missions and Defense Science Board reports and the 1997 *Defense Reform Initiative* and *Quadrennial Defense Review* reports—discussed the adoption of long-term contractor logistics support to improve logistics processes and achieve savings.<sup>12</sup> Generally, each study focused on increasing reliance on the private sector to meet the military's logistical support needs, as well as on making greater use of improved technologies, new business processes, and commercial transportation. However, as we have previously reported, the studies contained little substantive data to support their savings projections or made inaccurate assumptions about how work done by the private sector might relate to depot maintenance activities. For example, DOD officials used projected savings from the outsourcing of relatively simple commercial-type activities to estimate savings of 20 percent or more for outsourcing logistics support activities. However, their projected savings were based on conditions that do not

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<sup>9</sup> See U.S. General Accounting Office, *Defense Depot Maintenance: DOD Shifting More Workload for New Weapon Systems to the Private Sector*, GAO/NSIAD-98-8 (Washington, D.C.:1998). Repair and maintenance are usually performed at three levels, depending on magnitude or complexity. Individual squadrons or units do most routine smaller repairs, while progressively more difficult jobs are done at the “intermediate” or “depot” levels.

<sup>10</sup> Under *direct vendor delivery*, a contractor manages inventory and delivers parts (or items) directly to the user. Under *performance-based logistics*, the contractor agrees to provide a given level of performance and is responsible for all the required elements of logistics. The contractor may enter into an agreement with a government activity in which the government provides the contractor with some maintenance or other support.

<sup>11</sup> See U.S. General Accounting Office, *Defense Logistics: Actions Needed to Enhance Success of Reengineering Initiatives*, GAO/NSIAD-00-89 (Washington, D.C.: 2000).

<sup>12</sup> For details of these studies, see appendix I of GAO-01-618.

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currently exist for most military depot maintenance work.<sup>13</sup> The commercial-type activities were unlike military depot maintenance in that they involved relatively simple, routine, and repetitive tasks that do not generally require large capital investment or highly skilled and trained personnel.

As with this report, our September 2001 report on the Air Force (1) analyzed the differences between the cost-effectiveness estimates for proposed contractor-logistics-support approaches and actual implementation experience, (2) compared the performance of contractors and Air Force depots in terms of cost and responsiveness for the same or similar depot maintenance work, and (3) determined to what extent the Air Force had addressed concerns raised by major commands regarding the increased use of long-term contractor logistics support. Both reports contain similar findings and conclusions.

For our report on the Air Force, we reported that it is impossible to determine whether the cost-effectiveness estimates for proposed contractor-logistics-support approaches are being attained during implementation because the Air Force does not have the data required to do so. Similarly, a comparison of the same or similar depot maintenance work performed by Air Force depots and contractors did not provide a sufficient basis for determining the more cost-effective option. We also reported that the Air Force has not fully addressed major commands' concerns about the possible effects of the increased use of contractor logistics support. These concerns included potential impacts on funding flexibility, reductions in the ability to perform essential logistics management functions, reductions in the commands' authority over contractors, and the unavailability of technical data. We made recommendations aimed at improving the Air Force's ability to assess the cost-effectiveness of contractor-logistics-support approaches and to address management concerns raised by major Air Force commands associated with these approaches. DOD generally concurred with our recommendations.

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<sup>13</sup> See U.S. General Accounting Office, *Defense Depot Maintenance: Commission on Roles and Mission's Privatization Assumptions Are Questionable*, GAO/NSIAD-96-161 (Washington D.C.: 1996) and *Outsourcing DOD Logistics: Savings Achievable but Defense Science Board's Projections Are Overstated*, GAO/NSIAD-98-48 (Washington, D.C.: 1997).

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## **Data Needed to Assess Contractor Logistics Support Approaches Are Insufficient**

The Army and the Navy do not routinely capture the data needed to allow them to compare the cost and performance of weapons systems sustainment with the services' initial expectations.<sup>14</sup> DOD's policy requires initial cost and performance analyses, but does not require a detailed quantification of the alternative support approaches or require that this information be retained throughout the system's life cycle. The available data are not sufficiently detailed or reliable to allow for an evaluation of the support approach chosen for most of the weapons systems and subsystems we reviewed. DOD does assess contractor performance against contract requirements, and available indicators show that contractors generally met or exceeded contract criteria. However, without specific information on initial expectations, program offices may not be able to assess existing or newly emerging support strategies to determine where adjustments are needed. Furthermore, the services will not be able to assess whether greater reliance on the private sector will help them achieve DOD's goal of a 20-percent reduction in logistics support costs.

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## **The Army and the Navy Do Not Have Sufficient Data to Assess the Cost-Effectiveness of Proposed Contractor-Logistics-Support Approaches**

The Army and the Navy generally did not perform a cost-benefit analysis or did not retain information on the analysis used to support the decision to use the private sector to support weapons systems.<sup>15</sup> Consequently, they cannot determine whether contractor support approaches have performed better or worse than initially expected and may not have sufficient data to assess whether greater reliance on the private sector will help them achieve DOD's goal of a 20-percent reduction in logistics support costs.

Weapons systems program offices are responsible for analyzing the cost-effectiveness of contractor support approaches in developing life-cycle support plans. Although DOD Regulation 5000.2-R expresses a preference for using long-term contractor logistics support, it also requires that support approaches be analyzed to provide a basis for a final decision. We found that the required analyses had not always been performed, and even if they had, their documentation had not always been retained. The

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<sup>14</sup> DOD has acknowledged that the lack of a cost-accounting system is the single largest impediment to controlling and managing weapons systems costs, including the cost of acquiring, managing, and disposing of weapons systems (See U.S. General Accounting Office, *DOD Financial Management: Integrated Approach, Accountability, and Incentives Are Keys to Effective Reform*, GAO-01-681T [Washington, D.C.: 2001]).

<sup>15</sup> The issue of not performing cost-benefit analysis or retaining support-decision documentation may also apply to weapons systems supported by the public sector; however, we did not review these systems as part of our review.

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regulation does not require the services to retain their initial analyses and does not specify whether the analyses should include detailed estimates quantifying the cost or performance of various alternatives. As a result, even those analyses that had been retained did not always contain a detailed quantification of anticipated life-cycle cost and performance expectations.

We were able to compare the original estimated expectations and actual results for only 5 of the 75 contractor-supported systems or subsystems we reviewed. Forty-nine had no documentation of the original cost and performance expectations, 15 either had not developed any detailed expectations or had incomplete documentation, and 6 showed that contract performance was not comparable to expectations for various reasons such as differences between the initial decision criteria and the approach used by the contractors. Service-specific data from this analysis are shown in table 1.

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**Table 1: Service Data Reviewed to Compare Contractors' Performance with Initial Expectations**

|   | Army      | Navy      | Total     |
|---|-----------|-----------|-----------|
| <b>Number of systems reviewed</b>                   | <b>47</b> | <b>28</b> | <b>75</b> |
| Systems with no basis for comparison                | 39        | 25        | 64        |
| No documentation available                          | 29        | 20        | 49        |
| No expectations expressed in documentation          | 10        | 5         | 15        |
| Expectations expressed in documentation             | 8         | 3         | 11        |
| Contract performance not comparable to expectations | 5         | 1         | 6         |
| Contract performance comparable to expectations     | 3         | 2         | 5         |

Source: GAO's analysis of service logistics support decision documentation.

Contractors' performance met initial performance and cost expectations in four of the five cases in which a comparison was possible. However, because these five cases account for less than 10 percent of all the systems we examined, they do not provide a sufficient basis for drawing any conclusions about the cost-effectiveness of contractor logistics support.

Officials at service headquarters and at the Office of the Secretary of Defense acknowledged that program offices did not always perform the required analyses and that some analyses were not sufficiently rigorous to ensure a thorough and complete comparison of all support alternatives. For example, we found that in supporting its decision to use contractor logistics support for the Trojan II SPIRIT radio transmission equipment, the Army stated that (1) the complexity of the equipment and the lack of

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technical documentation made it uneconomical to develop in-house capability and that (2) a more cost-effective commercial facility already existed. However, the program office did not calculate or compare the costs of alternatives.

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### Services Satisfied with Contractor Logistics Support

While data are not generally available to compare results with expectations, contractors are measured against performance criteria in contracts, and on the basis of these measurements, the Army and Navy are generally satisfied with contractors' performance. According to DOD's contractor performance database, Army and Navy program managers evaluated most contractor performance as having met and, in some cases, exceeded all contractual requirements from 1998 through 2001. Program offices conduct assessments periodically and complete performance assessment reports once a year.<sup>16</sup> Performance is assessed using measures such as on-time delivery, schedule rates, and product quality standards. (See table 2 for data on Army contracts and table 3 for data on Navy contracts.)

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**Table 2: Army Contractors' Overall Performance Ratings, 1998 through 2001**

| <b>Rating</b>  | <b>1998<sup>a</sup></b> | <b>1999</b> | <b>2000</b> | <b>2001<sup>b</sup></b> | <b>Total</b> |
|----------------|-------------------------|-------------|-------------|-------------------------|--------------|
| Exceptional    | 2                       | 15          | 22          | 5                       | 44           |
| Very good      | 1                       | 14          | 10          | 13                      | 38           |
| Satisfactory   | 2                       | 4           | 6           | 4                       | 16           |
| Marginal       | 0                       | 0           | 1           | 1                       | 2            |
| Unsatisfactory | 0                       | 0           | 0           | 0                       | 0            |
| <b>Total</b>   | <b>5</b>                | <b>33</b>   | <b>39</b>   | <b>23</b>               | <b>100</b>   |

<sup>a</sup> Data for 1998 are less than those for other years because the Army did not begin to complete and submit performance reports until late in the year.

<sup>b</sup> All data for 2001 are not complete, pending completion of 2001 contracts.

Source: DOD's contractor performance database.

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<sup>16</sup> The services are required to complete annual performance assessment reports for contracts with performance periods exceeding 1 year. The data are used to evaluate contractor performance when making future contract award decisions.

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**Table 3: Navy Contractors' Overall Performance Ratings, 1998 through 2001**

| <b>Rating</b>  | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2001<sup>a</sup></b> | <b>Total</b> |
|----------------|-------------|-------------|-------------|-------------------------|--------------|
| Exceptional    | 54          | 61          | 56          | 23                      | 194          |
| Very good      | 56          | 83          | 85          | 38                      | 262          |
| Satisfactory   | 63          | 102         | 89          | 39                      | 293          |
| Marginal       | 17          | 12          | 15          | 5                       | 49           |
| Unsatisfactory | 1           | 1           | 1           | 1                       | 4            |
| <b>Total</b>   | <b>191</b>  | <b>259</b>  | <b>256</b>  | <b>106</b>              | <b>802</b>   |

<sup>a</sup> All data for 2001 are not complete, pending completion of 2001 contracts.

Source: DOD's contractor performance database.

The comments we received from program management officials were consistent with DOD's summary data. Program managers for 66 of the 75 systems we reviewed were satisfied with contractor performance in relation to the requirements of Army and Navy contracts.

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### Comparisons of Private and Government Depot Maintenance Performance Are Either Not Possible or Are Inconclusive

Comparisons of the same or similar work performed by military and private facilities are not possible or were inconclusive in determining which option is more cost-effective. As a matter of policy, the Army does not use contractors along with its own depots to perform the same work on the same weapons systems or components. As for the Navy, we identified no ships<sup>17</sup> and only four aircraft that have comparable work performed by both the public and private sector, and the available data for these showed mixed results. Furthermore, a comparison of 53 aircraft and ship components that have comparable work performed by both the public and private sector also showed mixed results.

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### Data for Navy Aircraft Overhauls Show Mixed Results

Navy data indicated that the private contractor was more cost-effective in overhauls of the P-3 aircraft, Navy depots were more cost-effective in overhauls of the F-14 and EA-6B aircraft, and neither was clearly more cost-effective in overhauls of the H-60 aircraft. However, the quality of the financial data generated by the Navy's accounting systems is questionable,

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<sup>17</sup> While the Navy overhauls ships of the same class in both public and private shipyards, the scope of work for each individual ship is significantly different and therefore did not support a comparison.

which may limit the usefulness of these comparisons.<sup>18</sup> Table 4 shows the details of our analysis of depot overhauls of Navy aircraft.

**Table 4: Comparison of Average Overhaul Prices for the P-3, H-60, F-14, and EA-6B Aircraft Performed by Private Contractors and Navy Depots**

| <b>Aircraft workload<sup>a</sup></b> | <b>Average price per depot repair</b> |                   | <b>Price difference (percentage)</b>    |   |
|--------------------------------------|---------------------------------------|-------------------|---|---|
|                                      | <b>Contractor</b>                     | <b>Navy depot</b> | <b>Contractor lower than Navy depot</b> | <b>Navy depot lower than contractor</b> |
| P-3                                  | \$ 587,450                            | \$ 966,829        | 39                                      |   |
| H-60 <sup>b</sup>                    | 441,789                               | 558,000           | 26                                      |   |
| H-60 <sup>b</sup>                    | 441,789                               | 411,428           |   | 7                                       |
| F-14A                                | 4,533,436                             | 3,656,535         |   | 19                                      |
| F-14B                                | 3,498,665                             | 3,019,703         |   | 14                                      |
| EA-6B                                | 2,224,143                             | 2,173,818         |   | 2                                       |

<sup>a</sup> Cost data available varied by time period for different aircraft: P-3 data cover the past 3 years; F-14A/B data cover the past 5 years; EA-6B data cover the past 4 years; and H-60 data cover the past 4 years.

<sup>b</sup>The H-60 work is performed by two Navy depots and one contractor. The table shows comparisons between the contractor and both Navy depots.

Source: GAO's analysis of the Navy's data.

There are only two clear examples of significant cost savings for work performed by a contractor (the P-3 aircraft) or by a Navy depot (the F-14). For the H-60, the contractor was less costly than one Navy depot, but more costly than a second Navy depot. Given these limited findings and the lack of reliable data, it is impossible to draw conclusions about which source is more cost-effective. Thus, data are not available to support the premise that the expanded use of contractors is likely to reduce the cost of weapons systems support.

#### Component Repair Data Provide Inconclusive Results

Similarly, data on the price of component repairs for similar Navy workloads by private facilities and government depots are limited and inconclusive for determining which option is more cost-effective. Again, we were unable to make any comparisons in the Army, and we reviewed 53 Navy components that allowed for an objective comparison of price

<sup>18</sup> As we reported in May 2001 (see GAO-01-681T), DOD does not yet have the systems and processes in place to capture the required cost information.

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and performance.<sup>19</sup> The contractors' prices were lower in 27 cases, and the Navy's were lower in the remaining 26. For example,

- a Navy depot repaired ship's master compass units for \$6,763 each, while the contractor repaired them for \$3,222 (52 percent less);
- a Navy depot repaired flight control torquemeters for \$4,064 each, while the contractor repaired them for \$1,920 (53 percent less);
- a contractor repaired video system converter assemblies for \$22,294 each, while the Navy depot did so for \$8,450 (62 percent less); and
- a contractor repaired circuit card assemblies for \$1,627 each, while the Navy depot repaired them for \$758 (53 percent less).

According to Navy officials, the cost of repair is not the main criterion for deciding who performs component repairs. In most cases, Navy depots were chosen because of their ability to meet the service's need to have a certain amount of public-sector depot maintenance capability requirements—technically referred to as “core logistics capability.”<sup>20</sup> Private contractors were chosen in some cases, even though they were the more expensive option, because the Navy needs to maintain commercial sources of repair to meet potential surge<sup>21</sup> and contingency requirements, and to offset capacity shortfalls.

Overall, Navy officials said that Navy depots and contractors both performed their work at acceptable levels for the component repairs we reviewed. Navy officials stated they had no problems with the quality of the contractors' or Navy depots' recent performance.

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## Major Commands' Concerns Have Not Been Fully Addressed

Although DOD and the services have taken some steps to address the concerns raised by major Army and Navy commands about the potential impact of expanding the use of contractor logistics support, efforts made so far are not yet complete or have not fully addressed these concerns. While contractors have stepped in to fill shortfalls in needed capability, command officials are still concerned that greatly expanding this approach

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<sup>19</sup> Because of limitations in the financial data, the price data are of questionable reliability.

<sup>20</sup> 10 U.S.C. 2464 provides for a core logistics capability that is to be identified by the secretary of defense and is government owned and operated. These provisions can limit the amount of depot-level maintenance that can be performed by contractors.

<sup>21</sup> Surge refers to the sudden and temporary increase in requirements during the early phases of a military operation or conflict.

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may (1) create a shortage of adequately trained soldiers and sailors needed to maintain weapons systems during a conflict, (2) require additional planning for contractors on the battlefield, (3) reduce funding flexibility, and (4) make the technical data required to maintain a competitive market unaffordable or unavailable. If DOD and the services do not address these issues, they risk having insufficient numbers of trained personnel when and where they are needed and not having a competitive environment to promote affordable repair and maintenance capabilities.

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#### **Availability of Required Maintenance Skills**

Army and Navy command officials were concerned that greater use of contractors to provide logistics support for weapons systems could reduce their operational capabilities by decreasing their ability to develop and maintain the critical technical skills and knowledge that soldiers and sailors need to sustain weapons systems during conflicts. According to these officials, maintaining a minimum essential level of maintenance capability at the operational level is essential to providing required warfighting capability. However, they added that the services have had to replace some military logistics personnel with contractor personnel to manage force structure reductions and that this increased use of contractors has reduced on-the-job training opportunities for military personnel who need to maintain and develop their required logistics skills. Combat officers stated that the Army is having difficulty with retaining highly skilled, better-trained soldiers in those logistics functions that are now being augmented or performed by contractors because contractors have been attracting the best and brightest soldiers with prospects of higher pay and benefits. In addition, these combat officers stated that the number of experienced soldiers available to train newcomers has been reduced and that the skill level of soldiers is not what it needs to be. This could generate a capability gap in maintenance at the operational level that could affect the Army's ability to generate required warfighting capability. Officials said they would probably have to compensate for such a gap by relying even more on contractors on the battlefield.

Combat command officials are also concerned that increasing the number of contractors who perform maintenance and other logistics functions at home bases and home ports could affect morale, and therefore retention. Having more contractors perform these functions reduces the number of available stateside assignments for military personnel assigned overseas or

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at sea.<sup>22</sup> This could increase the length of overseas or at-sea tours for military personnel wishing to be assigned closer to home.

According to a Navy logistics headquarters official, the issue needs to be addressed at the service headquarters level because it involves program managers who are primarily concerned about their individual system's performance. However, these managers are not necessarily aware of, nor is anyone assessing, the effects that their decisions to hire contractors may have servicewide. For example, a program office may allow a contractor to modify the design of an item that originally shared common parts and maintenance procedures with other items. This action would increase the number of spare parts stocked aboard ships and add new maintenance requirements. To address this issue, the Navy's office of Logistics Policy and Programs is developing policy that would increase the oversight role of logistics in the acquisition process.<sup>23</sup> The proposed policy would apply more focus on overarching support issues such as maintaining critical military logistics skills and capabilities.

For their part, senior Office of the Secretary of Defense logistics officials said they recognize the potential gap in critical maintenance capability at the combat-unit level. They also noted that DOD has not quantified essential logistics capabilities that need to be performed by military personnel. According to Army headquarters logistics officials, the Army has an effort under way to identify essential unit-level positions, including those that should be performed by military personnel, civilians, or contractors. The Army expects this effort to be completed in fiscal year 2002.

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#### Management of Contractors on the Battlefield

Officials from the Office of the Secretary of Defense noted that the use and management of contractors on the battlefield is a controversial issue for the Army but not a significant issue for the Navy.<sup>24</sup> Although Army policy addresses the issue, implementation challenges remain. Army officials stated that contractors are becoming increasingly essential for deployed combat units, even though Army policy states that, generally, contractors

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<sup>22</sup> See GAO/NSIAD-00-89.

<sup>23</sup> Secretary of Navy Instruction 5000.2-C, a revision of 5000.2-B.

<sup>24</sup> Navy officials stated that the incorporation of plans for the deployment, sustainment, protection, and management of contractors is dealt with regularly, since some Navy ships routinely deploy with contractors.

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are not to be used forward of the rear boundary of a division (i.e., on the battlefield).<sup>25</sup> Army officials also told us they are concerned about the extent to which DOD has incorporated the growing numbers of contractors into deployment schedules and operational plans and has assessed the impact that contractors have on military personnel issues and battlefield management.

Command officials indicated that a relatively small number of contractors on the battlefield might be manageable but that large numbers would accentuate problems. They could not specify this threshold in terms of numbers. Army officials said there are limits on how much contractors can be used on the battlefield for the following reasons:

- Combat units' ability to conduct wartime missions could be weakened if contractors are withdrawn or are unwilling to stay on or near the battlefield during hostilities.
- Providing the required support for and protection of contractors on or near a battlefield may require extra personnel and may divert resources from the wartime mission at a time when the services are trying to reduce their logistical presence in areas close to the battlefield.
- Contractors that are included in battlefield plans would also have to be included in the deployment-planning process; otherwise, combat forces may be required to take extraordinary actions at the time of deployment to send needed contractors to the battlefield.

The Army now requires that every unit operation and contingency plan contain provisions for managing, deploying, sustaining, and protecting contractors on the battlefield. However, the Army has recently learned that because some plans may not be complete or fully developed, some units may not be in compliance with the Army's planning requirements. One division has had problems with developing the plans for its units and has asked Army headquarters for assistance. Army headquarters logistics officials stated that they have not reviewed other divisions' plans and do not have in place a mechanism for verifying compliance with these requirements.

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## Funding Flexibility

Army and Navy operating command officials generally believe that logistics support contracts, to a degree, represent fixed obligations and could limit their ability to transfer funds in and out of various weapons

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<sup>25</sup>See *Contractors on the Battlefield*, FM 100-21 (Mar. 2000).

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systems' budget accounts to adjust for changing requirements or budget cuts. Although the Army and the Navy do not yet use contractor logistics support as much as the Air Force does, they are moving to greater reliance on contractors, and as they do, funding flexibility is likely to become more of a problem. Army and Navy officials noted that funding flexibility is already an issue that is likely to grow as the use of contractor logistics support increases.

Although funding for contractors is not necessarily fixed, officials said it is often treated as if it were. Army Forces Command officials cited a case in which they were recently directed to spread a reduction in the operation and maintenance budget evenly across all operation and maintenance accounts. However, because of the costs of reducing contract quantities, and because they did not want to risk losing contractor support over the long term, they applied most of the budget cuts to fuel and spare parts. Operating command officials stated that they have been able to accomplish their missions in spite of funding constraints, but they warned that such constraints could increase as their ability to transfer funds decreases. These officials could not specify at what point expanding the use of contractor logistics support might reduce their funding flexibility to the point that it might affect their ability to accomplish their missions.

Different military components are dealing with the issue in different ways. Navy logistics officials stated that upcoming policy revisions would create a headquarters oversight process for reviewing logistics support decisions for individual weapons systems.<sup>26</sup> They believe that this should address concerns about funding flexibility from a Navy-wide perspective. But there are tensions in the Army. According to Army headquarters logistics officials, the Army weapons systems program managers are trying to achieve greater control over logistics funding by expanding contractor logistics support. However, Army headquarters logistics, and financial and resource management officials are concerned that this may reduce the flexibility needed to deal with higher or changing priorities. Office of the Secretary of Defense officials said that stable funding commitments are needed to optimize new logistics support strategies, but they also noted that these would potentially limit a command's funding flexibility. The officials said that DOD is trying to develop innovative ways to implement its new logistics support strategies while allowing unit commanders the continued funding flexibility they need.

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<sup>26</sup> See Secretary of the Navy Instruction 5000.2-C.

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## Access to Technical Data

While DOD's acquisition regulations require that program managers have enough technical data<sup>27</sup> to be able to support competition for logistics sustainment throughout the life of the weapons systems,<sup>28</sup> command and headquarters logistics officials stated that program offices often do not put adequate emphasis on obtaining required access to the needed technical data during the acquisition process. These officials are concerned that the expanded use of contractor logistics support will result in reducing the availability of affordable technical data needed to competitively support weapons systems and that without such a competitive base, future contractor support costs may increase disproportionately compared with what would be expected in a competitive environment. Officials stated that even though contractor logistics support is theoretically supposed to sustain a weapons system for its entire life cycle, a contractor may not want to do so, especially if the system remains in service longer than initially planned. Consequently, when the data are needed later in the life cycle, they may be prohibitively expensive.

Currently, some program offices do not have sufficient access to technical data because they believe that the prices being requested by the contractors that own the data are unaffordable. For example, the Army tried to buy technical data to develop in-house capability to repair its SPITFIRE radio terminals. The manufacturer was willing to sell the data for \$100 million—almost as much as what the entire program cost (\$120 million)<sup>29</sup> from 1996 through 2001. Program officials decided they could not afford the data, and the Army will continue to buy repair services noncompetitively from the manufacturer. Another example shows how access to adequate and affordable technical data can reduce costs and improve repair times significantly. According to a program management official, a private manufacturer was not repairing a commercial satellite communications radio quickly enough to meet the Army's needs. By using data in the user's technical manual (which comes with the radio), the Army was able to have a government-owned, contractor-operated facility repair the units for an average of \$5,000 less

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<sup>27</sup> Technical data consist of descriptions and drawings that provide the necessary level of detail for repair and maintain items or equipment purchased and, in some cases, to produce needed component repair parts.

<sup>28</sup> See *Mandatory Procedures for Major Defense Acquisition Programs (MDAP) and Major Automated Information System Acquisition Programs*, DOD 5000.2-R (June 2001).

<sup>29</sup> This figure includes the radios, spare parts, depot repair, and training for the system.

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per repair than the original contractor's price, with an average turnaround time of 1 week (instead of 6 months).

A high-level official in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics stated that while DOD Regulation 5000.2-R requires that program offices ensure access to needed technical data, frequently, this has not occurred. If this does not occur as part of the initial acquisition process, the government will have less bargaining power in future negotiations for the data. He noted that more emphasis on oversight is needed in the acquisition process. This, he said, would ensure that the program offices maintain adequate access to technical data throughout the life of the weapons systems to foster a competitive environment for making logistics support arrangements for weapons systems. Army and Navy headquarters logistics officials also warned that the lack of access to sufficient technical data could jeopardize the services' ability to maintain weapons systems in the long term. In our previous report on the Air Force's use of contractor logistics support,<sup>30</sup> Air Force officials recognized the difficulty resulting from not having affordable technical data and noted that one way to deal with this issue is for program offices to include a priced option for the purchase of technical data when proposals for new weapons systems or modifications to existing systems are being considered. Army and Navy logistics officials agreed with this approach.

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## Conclusions

The Army and Navy are working to find ways to significantly improve the effectiveness of logistics support strategies and to reduce weapons systems' life-cycle costs. However, they do not have key management data necessary to measure whether anticipated cost and performance projections for new logistics strategies are being achieved. New logistics support strategies are being introduced and tested, but often, baseline data are not being developed or retained to assess actual cost and effectiveness results against the initial business-case analysis that was used to select a specific support strategy. Without such information, management assessments of the strategies' strengths and weaknesses cannot be made; impacts on budget estimates are difficult to assess; and, most importantly, substantial resources may be wasted in implementing logistics support strategies that may be more costly or less efficient than initial estimates had projected. Also, sufficient data for early assessments of new logistics

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<sup>30</sup> See GAO-01-618.

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support strategies are not available to assess whether life-cycle support costs and effectiveness goals are being met and to help identify where program strategy adjustments might be needed to meet goals.

While many new logistics support strategies include the performance of logistics activities by contractors, major commands are concerned that the impact of these strategies has not been fully evaluated. The impact of using contractors in increasing numbers in military units has not been adequately assessed, particularly with respect to the effect on the services' ability to develop and retain sufficient military maintenance personnel to accomplish the required repair work during a military conflict. Given that some contractors will continue to be required for logistics support during conflicts, more may need to be done to ensure that operational plans effectively provide for the deployment, sustainment, protection, and management of contractors. Furthermore, as DOD continues with its plans to increase the use of contractor logistics support, and particularly as it considers transferring the control of maintenance funding to program managers, an assessment of the effects of such strategies on the flexibility of operational commanders would provide meaningful insights into the full impact of the implementation of these initiatives. Lastly, although DOD's regulation 5000.2-R requires that program managers have enough data to be able to support competition throughout the life of the weapons systems, little is being done to achieve this goal in a consistent and cost-effective manner. The Air Force has suggested including priced options for technical data when systems are being purchased as a potential solution. If the availability of technical data is not more fully addressed in the acquisition process, DOD runs the risk that weapons systems and their key components will likely not be available to meet mission needs or that they will be obtainable only at unnecessarily high costs.

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## Recommendations for Executive Action

To enhance accountability over life-cycle cost and effectiveness decisions regarding logistics support, we recommend that the secretary of defense take action to strengthen Department of Defense Regulation 5000.2-R to require that a detailed quantification of the expected life-cycle costs of alternative support approaches be made before making logistics support decisions for a weapon system. We also recommend that the secretary of defense develop a requirement to ensure that weapons systems acquisition program offices retain the documentation of analyses used to support the initial life-cycle logistics support decisions and, using the data from these analyses, conduct periodic reviews to (1) assess the cost-effectiveness of logistics support, (2) develop budgetary implications of life-cycle cost changes, (3) assess existing and newly emerging support strategies to

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determine where adjustments may be needed, and (4) identify the conditions under which the various support approaches are likely to achieve the most cost-effective results.

To enhance the services' ability to make sound logistics management and policy decisions, we recommend that the secretary of defense require the Departments of the Army and Navy to assess and report to him on any actions needed to address the concerns raised by operating commands regarding the (1) requirements for logistics military personnel in each logistics specialty required to support operational plans, (2) planning for the use of contractors to support operational and contingency plans, and (3) impact of increasing contractor-logistics-support arrangements on command spending flexibility.

To help reduce the risk of increased life-cycle support costs and foster a competitive logistics support environment, we recommend that the secretary of defense take actions to enforce the requirement in Department of Defense Regulation 5000.2-R, related to the acquisition of technical data rights to foster source of support competition throughout the life of the system, by (1) placing greater emphasis on the importance of addressing the availability of technical data during the acquisition oversight process and (2) requiring program offices to assess the merits of including a priced option for the purchase of technical data when proposals for new weapons systems or modifications to existing systems are being considered.

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## Agency Comments and Our Evaluation

DOD provided written comments on a draft of this report, generally agreeing with our recommendations. DOD's response identified steps that the Department is taking to address our recommendations, noting that the Department is attempting to improve DOD's logistics support through its new Future Logistics Enterprise initiative. According to the response, this initiative, which includes a life-cycle weapon system management approach, should address the deficiencies identified in our report. DOD's comments are included in this report as appendix II.

While fully concurring with three recommendations, DOD partially concurred with our recommendation to direct the secretaries of the Army and of the Navy to retain logistics support decision documentation and conduct periodic follow-up reviews for assessing and improving selected support approaches. DOD stated that, rather than directing a specific service to develop requirements for retaining logistics support decision-making criteria, the Department will include requirements in the next

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update of DOD Regulation 5000.2-R that are applicable to all the services. Furthermore, DOD plans to periodically assess selected systems to measure supportability factors such as the readiness, availability, reliability, and costs of new programs. DOD stated that these reviews will assess the degree to which logistics support decisions achieve their stated purpose and identify the actions needed to alter support strategies. We agree that modifications to DOD Regulation 5000.2R could provide needed direction to the military departments regarding assessing the cost and performance effectiveness of logistics support decisions. Once implemented, these actions would satisfy the intent of our recommendation. Therefore, we have modified this recommendation to make it consistent with DOD's promised action plan.

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We met with officials at headquarters, U.S. Army; Army Aviation and Missile Command; Army Communication and Electronics Command; Army Tank and Automotive Command; Army Forces Command; Army III Corps; Army Materiel Systems Analysis Activity; Army Test and Evaluation Command; headquarters, U.S. Navy; Naval Sea Systems Command; Naval Air Systems Command; U.S. Atlantic Fleet; Naval Inventory Control Point, Mechanicsburg; and Naval Inventory Control Point, Philadelphia. We also met with officials from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. We conducted our review from May through December 2001 in accordance with generally accepted government auditing standards. For more details on our scope and methodology, see appendix I.

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We are sending copies of this report to the appropriate congressional committees; the secretary of defense; the secretary of the Army; the secretary of the Navy; the secretary of the Air Force; and the director, Office of Management and Budget. We will also make copies available to others upon request. Please contact me on (202) 512-8412 if you or your staff have any questions concerning this report. Key contributors to this report are listed in appendix III.



David R. Warren, Director  
Defense Capabilities and Management

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# Appendix I: Scope and Methodology

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To determine whether the Department of Defense (DOD) has sufficient data to assess whether initial cost-effectiveness estimates for proposed contractor-logistics-support approaches are being achieved during program implementation, we identified weapons systems that relied on contractor logistics support and systems that used a lesser degree of contractor-provided support through discussions with officials at Army and Navy headquarters, system program offices, and weapons systems commands. We looked at 75 systems (47 Army and 28 Navy) that were in use at the time of our review. Because neither the Army nor the Navy had listings of systems that are supported by contractor logistics support,<sup>1</sup> we asked service officials to identify those operational systems that have the highest amount of contractor support. Using the Air Force's definition of contractor logistics support, we then separated the systems into two categories—"contractor logistics support" and "other." We made this assessment after discussing the scope of logistics support for each system with program managers. For the systems we reviewed that used contractor logistics support, we determined whether the systems were either commercially available items or derivatives of commercially available items through discussions with program managers. For the systems in both categories, we collected and reviewed cost and performance data and, to the extent that sufficient information was available, compared initial estimates with actual results of contractors' performance. To provide information on the overall performance of contractor-provided logistics support against contract requirements, we obtained summary data from DOD's contractor performance assessment database to determine how contractors performed against those contract requirements. We did not independently verify the quality of contractors' performance in providing logistics support or the reliability of contractor-reported cost data. However, we did discuss the quality of contractors' performance with weapons systems program managers.

To determine the extent to which the services have data to compare the performance of contractors and military depots in terms of cost and responsiveness for the same or similar overhaul and repair work, we reviewed the policies and procedures for the performance and allocation of depot maintenance workload, interviewed Army and Navy logistics officials, and collected and analyzed cost and performance data for similar

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<sup>1</sup> The Navy has not defined a category of support called "contractor logistics support," and the Army considers any logistics activity performed by a contractor as contractor logistics support.

depot maintenance workloads. As a matter of policy, the Army does not use contractors and military depots to perform the same or similar work. Therefore, no Army system and component overhauls were included in our analyses. Navy aviation and ship logistics officials provided lists of aircraft systems, and aircraft and ship components for which such data and experience were available.<sup>2</sup> For the five Navy aircraft systems identified, we interviewed program management and logistics officials to determine whether (1) the scope of work performed by the military depot and contractor were the same or sufficiently similar to allow a meaningful comparison and (2) variations in the conditions of individual aircraft were not so extensive that they did not negate the meaningfulness of the comparison. We then collected and analyzed available cost and performance data for the five aircraft repaired by both Navy depots and contractors, and compared the costs of each repair source with the other repair source to determine whether one source was more or less costly than the other. We determined that one of the five aircraft, the S-3, did not provide sufficient comparable data for our analysis. For components, we obtained a Navy listing of the components repaired at both military depots and contractor facilities. The listing was developed by the supply systems commands in response to our request for this information. We reviewed 71 components for an analysis of repair costs and performance. We selected 31 ship components by identifying those items that had at least five repairs by both contractors and Navy depots for fiscal year 2000. We selected 40 aviation components by identifying those items that had at least 15 repairs by both contractors and Navy depots for fiscal year 2000. For the identified components, we met with the responsible item managers, contracting officers, and equipment specialists to ensure that the same repairs were being performed at both military and contractor facilities. As a result, we determined that the repairs being performed by the military and contractors were comparable for 53 components. We excluded 18 of the 71 components because we determined that the circumstances surrounding the repairs of these items did not permit an objective comparison of contractors' and the military's repair costs. In these cases, either the contractor or the Navy depot (but not both) was performing more extensive repairs or upgrading components in conjunction with those repairs or we determined that the pricing data available were insufficient. Thus, the work was not comparable. We relied on, but did not independently verify, the military's and contractors' repair cost data

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<sup>2</sup> The Navy did not identify any ships that use contractor and military depots to perform the same or similar work.

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provided by Navy item managers, contracting officers, equipment specialists, and production specialist. During our work to address this objective, we also collected, analyzed, and discussed data regarding the relative performance of contractors' and the Navy's depots for the workloads with systems command and program office officials.

To determine to what extent the Army and Navy have addressed concerns raised by their major commands regarding the increased use of contractor logistics support, we held discussions with U.S. Atlantic Fleet, Naval Surface Force U.S. Atlantic Fleet, Naval Submarine Force U.S. Atlantic Fleet, and Naval Air Force U.S. Atlantic Fleet logistics officials; and Army Forces Command and Army III Corps operations, finance, and logistics officials. We discussed the challenges identified with a high-ranking official from the Office of the Deputy Under Secretary of Defense for Acquisition, Technology and Logistics to determine whether the Department views the issues as relevant and valid.

# Appendix II: Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR  
LOGISTICS AND MATERIEL READINESS  
3500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3500

FEB 15 2002

Mr. David R. Warren  
Director, Defense Capabilities and Management  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Warren,

This is the Department of Defense (DoD) response to the GAO draft report, "DEFENSE LOGISTICS: Opportunities to Improve the Army and Navy Decision-Making Process for Weapons System Support", dated January 15, 2002 (GAO Code 709514/350072). The Department generally concurs with the report.

The report's findings parallel results of a similar audit performed on Air Force systems last year, to which the Department also generally concurred. This effort focuses more attention on strengthening existing policies found in the DOD 5000 series Acquisition Policy documentation. The Department agrees and is addressing those policies through its Total Life Cycle Systems Management (TLCSM) effort under its Future Logistics Enterprise (FLE) effort. FLE is a comprehensive effort to improve DoD logistics support through enterprise integration and end-to-end customer service. FLE consists of six specific initiatives including TLCSM. The TLCSM Working Group consists of representatives from the Office of the Secretary of Defense, the Services, and Defense Agencies, joined in a collaborative effort to improve the Department's weapon system support processes. Efforts aimed at addressing deficiencies identified in the draft report, including changes to the DoD 5000 series documentation, will be pursued by this group.

The detailed DoD comments on the draft GAO recommendations are provided in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Allen W. Beckett" above "for Diane K. Morales".

Attachment  
As stated

cc:  
Director, ARA



**GAO DRAFT REPORT DATED JANUARY 15, 2002  
(GAO CODE 709514/350072)**

**"DEFENSE LOGISTICS: OPPORTUNITIES TO IMPROVE THE ARMY AND NAVY DECISION-MAKING PROCESS FOR WEAPONS SYSTEMS SUPPORT"**

**DEPARTMENT OF DEFENSE COMMENTS TO  
THE GAO RECOMMENDATIONS**

**RECOMMENDATION 1:** To enhance accountability over logistics support life-cycle cost and effectiveness decisions, the GAO recommended that the Secretary of Defense take action to strengthen Department of Defense Regulation 5000.2-R, to require that a detailed quantification of the expected life-cycle costs of alternative support approaches be made before making logistics support decisions for a weapons system.

**DOD RESPONSE:** Concur. The 5000 series of Acquisition Policy documents are being revised to include emphasis on Total Life Cycle Systems Management (TLCSM) and Performance Based Logistics (PBL). TLCSM is the framework to enable program managers to exercise full responsibility of the weapon system throughout its life cycle, to include supportability. PBL is a strategy to accomplish this by allowing program managers to provide sustainment as an integrated package designed to optimize system readiness. Support providers under this arrangement can be industry, an organic provider, or a mix of both. In implementing PBL, and thereby selecting the ultimate logistics support provider, program managers will perform business case analyses that consider total life cycle costs, negotiated performance level agreements with the warfighter, and best value. Although the department has updated the DoD 5000.2-R to include PBL and TLCSM in Draft Change 1, an expansion of this policy to include supportability sourcing decisions based on TLCSM will occur with the next update, now planned for June 2002.

**RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Secretaries of the Army and the Navy to develop a requirement to ensure that weapons systems acquisition program offices retain the documentation of analyses used to support the initial life-cycle logistics support decisions and, using the data from these analyses, conduct periodic reviews to (1) assess logistics support cost-effectiveness, (2) develop budget impact implications of life-cycle cost changes, (3) assess existing and newly emerging support strategies to determine where adjustments may be needed, and (4) identify the conditions under which the various support approaches are likely to achieve the most cost-effective results.

**DOD RESPONSE:** Partially concur. Inherent in implementing TLCSM is the creation of performance agreements between program offices and the warfighter

and between program offices and the support provider. Selection of the support provider is based on statutory constraints and a business case analysis. In order to assess the performance of the business arrangements and the performance agreements, the Department plans to conduct periodic assessments on a selected system basis to measure such supportability factors as readiness, availability, reliability and cost for new programs. These reviews will assess the degree to which support decisions achieve their stated purpose and identify actions needed, if any, to alter support strategies, alter support arrangements, or reconfigure support provider relationships. Rather than direct requirements to a specific Service, the Department will include requirements to retain logistics support decision-making criteria into the next update to the DoD 5000.2-R. As stated in response to recommendation #1, this is scheduled for publication in June 2002.

**RECOMMENDATION 3:** To enhance the Services' ability to make sound logistics management and policy decisions, the GAO recommended that the Secretary of Defense require the Departments of the Army and Navy to assess and report to him on any actions needed to address the concerns raised by operating commanders regarding the (1) logistics military personnel requirements in each logistics specialty required to support operational plans, (2) planning for the use of contractors to support operational and contingency plans, and (3) impact of increasing contractor-logistics-support arrangements on command spending flexibility.

**DOD RESPONSE:** Concur. The Department recognizes the risks involved in implementing alternative support strategies that deviate from established processes. The Department agrees that operational support commanders should be consulted during the evaluation and selection of support providers when implementing Performance Based Logistics, to both instill confidence in the selected provider method and to minimize future readiness detractions. The Joint Logistics Board has agreed to the broad application of Total Life Cycle Systems Management as a framework for future product support. The TLCSM workgroup, which consists of OSD, Joint Staff J-4, Army, Navy, Air Force, Marine Corps, and Defense Logistics Agency representatives, will include the issues of personnel requirements, contractors on the battlefield, and command spending flexibility as items to be addressed in formulating evolving DoD sustainment policy guidance. Strategies, actions, and critical elements needed to address these concerns, including appropriate consultation with operational commanders, will be performed on a Department-wide basis.

**RECOMMENDATION 4:** To help reduce the risk of increased life-cycle support costs and foster a competitive logistics support environment, the GAO recommended that the Secretary of Defense take actions to enforce the requirement in Department of Defense regulation 5000.2-R, related to the acquisition of technical data rights to foster source of support competition

throughout the life of the system, by (1) placing greater emphasis on the importance of addressing technical data availability during the acquisition oversight process, and (2) requiring program offices to assess the merits of including a priced option for the purchase of technical data when proposals for new weapons systems or modifications to existing systems are being considered.

**DOD RESPONSE:** Concur. As noted in the draft audit report, there is a current requirement in the DoD 5000.2-R for program offices to provide for long-term access to data required for the competitive sourcing of systems support throughout the life cycle, (C2.8.4.1, DoD 5000.2-R, June 2001). The current policy also states a preference for providing on-line access to programmatic and technical data through a contractor information service or information technology infrastructure. (DoD 5000.2-R, paragraphs C2.6.3.1 and C.2.6.3.1.2, June 2001). The Department's intent is to allow program offices the flexibility to provide for access to technical data in a manner that provides maximum cost-effective support over the life cycle for weapons systems. In implementing Total Life Cycle Systems Management, the Department will strengthen this requirement for access to long-term technical data as a specific need to be addressed when negotiating support agreements with logistics providers. Although there is nothing in current DoD policy that would preclude program offices from assessing the merits of including a priced option for purchasing technical data, the Department will also include this as an option for program managers to consider in the next edition of the Department's Product Support Guide (Product Support: A Program Manager's Guide for Buying Performance, November 2001), scheduled to be updated in April, 2002.

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## Appendix III: Staff Acknowledgments

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Julia Denman, Larry Junek, Robert Malpass, Bobby Worrell, John Brosnan, Stefano Petrucci, and John Strong made key contributions to this report.

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